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C O N F I D E N T I A L TEL AVIV 001288

SIPDIS

NEA FOR BURNS/SATTERFIELD

E.O. 12958: DECL: 03/01/2014

TAGS: [ENRG IS GOI EXTERNAL ECONOMY AND FINANCE](#)

SUBJECT: NEGOTIATIONS FOR EGYPT/ISRAEL GAS PIPELINE CONTINUE

Classified By: Economic Counselor Theodore A. Mann for reasons 1.4 (b) and (d).

1. (C) Summary: The Egypt/Israel gas pipeline project is approaching some of the final hurdles in the negotiations between the many parties, according to the Senior Vice President of the Israeli firm Merhav, Nimrod Novik. In a conversation with Embassy econoff on March 1, Novik said the process was moving ahead, but there are five outstanding issues that still need to be resolved, mostly on the Israeli side. Merhav is a partner in the joint Israeli-Egyptian firm Eastern Mediterranean Gas (EMG), which is the company negotiating the contract to bring Egyptian natural gas to Israel. Novik expects that most of these issues will be resolved in a meeting of the Israeli Economic Cabinet this week or next. End summary.

2. (C) In recent weeks, Israeli media has suggested that the Egypt-Israel natural gas project had reached an impasse over the unwillingness of the Israel Electric Corporation (IEC) to provide a letter of credit to EMG to cover their development costs, in the event that circumstances prevent the firm from being reimbursed. Novik rejected this speculation and said that terms of a letter of credit with IEC have been agreed to in principle and the amount is less than the USD 200 million reported in the press. Novik said that this is one of five issues that will need to be agreed upon by the GOI's Economic Cabinet.

3. (C) The remaining issues according to Novik also deal with liability issues. All of these items are scheduled to be discussed, according to Novik, at the Economic Cabinet meeting this week or next.

-- The GOI has asked for a guarantee from the GOE to provide the natural gas quantities agreed upon. Novik said that the GOE has agreed in principle to this guarantee and that Mubarak reaffirmed this commitment in a conversation with Shimon Peres a few weeks ago.

-- The IEC has been unwilling to sign a traditional take or pay agreement with the GOE. IEC is not responsible for the construction of the natural gas system and so did not want to be held liable if the system was not completed on schedule, and therefore unable to take the gas. The Israeli Natural Gas Line (INGL) has agreed to take on this liability, however the agreement needs the Economic Cabinet's endorsement.

-- The IEC wants a guarantee from the government that the IPPs will be allowed to access the natural gas supply under the same terms as the IEC, should IEC not be able to use all of the gas that it is contracted to buy from Egypt.

-- EMG believes that the Egyptian-Israeli partnership should not be taxed because it is the exporter, and that IEC as the importer should be responsible for the tax liability. Novik claims that IEC has agreed to accept the tax liability both now and in the future should government policy change.

4. (C) Novik expects that the Economic Cabinet will resolve each of these issues in its meeting. He said his only concern is that if there is a delay, the detractors of this project within Israel could mount a campaign to scuttle the project. Novik said that the Knesset is scheduled to debate the project on March 15, and that opponents, led by those associated with the British Gas/Palestinian project, are planning on making "a lot of noise" against the project. When asked about similar problems within the Egyptian parliament, Novik dismissed recent press reports as not relevant. Novik reiterated the commitments EMG has received from President Mubarak, the Egyptian General Petroleum Corporation, the Egyptian Gas Holding Company, and others within the Egyptian government. Novik concluded that the issues remaining were difficult "as all final issues are", but achievable.

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